U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

February 23, 2006

The Honorable Jim Nussle
Chairman
Committee on the Budget
U.S. House of Representatives
309 Cannon House Office Building
Washington, D.C.

Dear Chairman Nussle:

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives and section 301(d) of the Congressional Budget Act of 1974, I transmit herewith the "Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2007." I am also transmitting views submitted by Members of the Committee.

Should you or your staff have further questions regarding this document, please contact the Committee's General Counsel, Mr. Thomas Duncan, at extension 5-7502.

Yours truly,

Michael G. Oxley
Chairman

MGO/td

Enclosure

cc: The Honorable Barney Frank

Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2007

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives for the 109th Congress and section 301(d) of the Congressional Budget Act of 1974, the Committee on Financial Services is transmitting herewith (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2007 and (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session.

SECURITIES AND EXCHANGE COMMISSION

The Committee commends the President for his commitment to fund the needs of the Securities and Exchange Commission (SEC), and supports the President's FY 2007 Budget to provide the SEC with $905 million. This represents an approximate 2 percent increase in its annual budget. The President has provided the SEC with the greatest increase in its budget over the last several years versus any previous administration. In line with the goal of investor protection, this administration has increased the SEC budget by nearly 250 percent since 2000.

The increased funding of the SEC has aided efforts to restore investor confidence in the integrity of the capital markets. Through its oversight and enforcement responsibilities, the SEC has succeeded in uncovering and deterring fraud in the financial services industry. In 2005, the SEC brought 629 enforcement actions against individuals and entities for securities laws violations. The SEC brought several significant fraud cases against mutual funds and investment advisers for market timing abuses and public companies for accounting fraud.

The SEC has also worked to ensure that smaller public companies do not face a disproportionate regulatory burden. In December 2004, the SEC established the Advisory Committee on Smaller Public Companies (ACSPC) to assess the current regulatory system for smaller companies under the securities laws, including the impact of the Sarbanes-Oxley Act of 2002. In the coming weeks, the ACSPC is scheduled to present the SEC with a set of recommendations alleviating regulatory burdens on smaller businesses. The ACSPC intends to include recommendations relating to the internal control and corporate governance requirements of the Sarbanes-Oxley Act. The budget authority that the President has proposed for the SEC will enable it to continue to examine both the effect of the securities laws on small businesses and methods to streamline the regulatory environment.

The strength of the U.S. securities markets is founded on the accurate and accessible disclosure of financial information. The budget authority the President has proposed for the SEC should enable the agency to improve this disclosure. The SEC requires that public companies disclose detailed financial information, which it makes available to the public through its online database, the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. To ensure these tools are as user-friendly and transparent as possible, the SEC has begun an initiative to improve this disclosure with technological enhancements to EDGAR. In addition, the SEC has established a voluntary program allowing registrants to file supplemental financial information using eXtensible Business Reporting Language (XBRL). XBRL provides greater context to data through standard definitions that turn text-based information, such as the filings currently contained in the EDGAR system, into documents that can be retrieved, searched, and analyzed through automated means. This enables investors and other marketplace participants to analyze data from different sources and allows for the automatic exchange of financial information across various software platforms, including web services.

GOVERNMENT SPONSORED ENTERPRISES

The Committee continues to support improved regulatory oversight of the housing Government Sponsored Enterprises (GSEs) - Fannie Mae, Freddie Mac, and the twelve Federal Home Loan Banks – called for by the Administration. The GSEs play an important role in providing liquidity to the secondary mortgage market and financial institutions. However, the widespread impact of the GSEs on the financial system and national economy necessitates that they be supervised by a regulator with the tools and resources needed to ensure their safety and soundness and mission compliance.

Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System rank among the largest financial institutions in the United States. The GSEs have over two trillion dollars of outstanding debt obligations, held by a large number of federally insured banking institutions, as well as domestic and international investors including central banks. Over the past three years, Fannie Mae and Freddie Mac have disclosed significant accounting irregularities and undergone management reorganizations; some Federal Home Loan Banks have also experienced accounting problems and management changes. As a result, they too are in the process of making financial restatements. The GSEs' current regulators lack the resources, authority, and expertise to adequately monitor the activities of these large and complex institutions.

Consolidating GSE supervision into a single regulatory body will likely result in stronger oversight. To that end, last July the Committee reported, and in October the House passed, H.R. 1461, the Federal Housing Finance Reform Act of 2005. H.R. 1461 establishes the Federal Housing Finance Agency, as an independent agency to oversee the safe and sound operation as well as the mission function of the GSEs. Funding for the new regulator will continue to come from assessments on the GSEs, but is removed from the appropriations process, as recommended by the Administration. The director of the agency is granted stronger powers than current regulators in the areas of capital requirements, portfolio holdings, operations standards, enforcement, and receivership; authority to review and approve new programs and activities is also provided. Affordable housing funds created at Fannie Mae and Freddie Mac are funded by a percentage of after-tax corporate earnings, modeled on the successful affordable housing programs of the Federal Home Loan Banks. The Committee anticipates Senate action on this bill early in 2006 and hopes for swift conference action shortly thereafter.

TERRORISM RISK INSURANCE

The Congress responded to the September 11, 2001 terrorist attacks by enacting the Terrorism Risk Insurance Act (TRIA). This Act was set to expire on December 31, 2005. After the Committee acted last year, S. 467, the Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144), was enacted extending TRIA through calendar year 2007 and eliminating certain lines of coverage.

While there is no reliable way to predict how much insured damage future terrorists might cause, the Congressional Budget Office (CBO) has estimated that S. 467 will increase direct spending by approximately $1.4 billion over the 2006-2010 period and by $1.5 billion over the next 10 years. Under TRIA, the Department of the Treasury will recoup some or all of the costs of providing financial assistance through charges imposed on insurance firms. CBO expects that the increase in federal spending for financial assistance would be nearly offset by corresponding increase in government receipts over a period of several years. CBO estimates that S. 467 will increase governmental receipts by about $150 million over the 2006-2010 period, and by $720 million over the next ten years. According to CBO estimates, the net expected federal outlay, spending less receipts from charges over the period 2006-2015, will be approximately $780 million. CBO notes that the actual cost could vary greatly from the estimated amounts. The Committee agrees with the CBO that there is no reliable way to estimate how much S. 467 will cost, and that any attempt to budget for losses from terrorist attacks would be pure speculation.

The President's FY2007 Budget allocates $6 million per year for Fiscal Year 2006 and 2007 for administrative expenses for the Terrorism Risk Insurance Program (TRIP) within the Department of the Treasury. This represents an increase from $4 million for Fiscal Year 2005, despite the fact that the TRIA extension did not include major or complicated reforms, and the program is scheduled to be phased out by December 31, 2007. Considering the ongoing terrorism threat faced by the nation, the Committee questions the TRIP budget increase absent a plan to develop long term solutions to protect consumers and the terrorism insurance marketplace.

MILITARY PERSONNEL FINANCIAL SERVICES PROTECTION

Last year the House passed H.R. 458, the "Military Personnel Financial Services Protection Act", 405-2. The legislation banned the future sale of contract plans (also known as "periodic payment plans") to military personnel. The bill strengthen state insurance regulation over military bases located within their jurisdictions, required the Department of Defense to maintain a list of agents and advisors banned or barred from doing business on military installations, required certain disclosures prior to sales of financial products to military personnel, and required notification and coordination between state regulators and the Department of Defense of agents and advisors banned or barred from doing business on military installations. H.R. 458 is almost identical to H.R. 5011, which passed the House in the 108th Congress. CBO estimated that the implementation of the Military Personnel Financial Services Protection Act would not result in a significant cost to the federal government and would not affect direct spending or revenues. The Committee believes that H.R. 458 will have little or no budgetary impact.

Treasury Communications Enterprise

The Committee continues to be concerned about the cost and performance impacts of the planned $1 billion-plus Treasury Communications Enterprise (TCE) voice and data network. Given the vast amounts of data that would be carried over the network and both the potential cost and the centrality of such a system to Treasury's continued mission performance, the Committee believes that any such project should be prudently planned and wisely put out for contract. However, as detailed in a recent study by the Office of Inspector General (OIG-06-028), the planning and contracting process have had such major deficiencies that the project appears to be star-crossed. The potential cost and performance impact of a badly planned and executed TCE contract on vital Treasury functions ranging from the enforcement of sanctions on Iran to the disbursement of Social Security checks cannot be under-estimated. The Committee intends to monitor the TCE project going forward, and work with other committees including the Committee on Government Reform and Oversight, to ensure that the project, if it goes forward, does so in a rational and successful fashion.

Financial Management Service

The Committee notes that Treasury's Financial Management Service (FMS) has proposed several debt-collection initiatives that would increase the collection of delinquent debt. One initiative would allow the offset of Federal tax refunds to collect delinquent state tax for residents who currently reside in a different state. Another would eliminate the 10-year statute of limitations period applicable to the offset of Federal non-tax payments to collect debt owed to federal agencies. A third would allow FMS to charge the IRS a fee for tax levies. While the Committee has no direct jurisdiction over either tax-related proposal, the budgetary effect on FMS of these proposals are of interest to the Committee and it will monitor the proposals closely. The Committee also notes, for example, that the FMS budget request represents a $227,000 drop, to a requested $233.7 million, for operating expenses in 2007, and that operating assumptions for that fiscal year and out-years appear to be premised on enactment of such provisions, which are being put forward again after failing to become law in several previous budget cycles.

Treasury Office of Inspector General

The Committee notes the near-level funding of the Office of Inspector General (OIG), with a proposed increase of just over $500,000, to $17.4 million. The increase is meant to maintain current staffing levels at 115, but the Committee will assess whether the funding level or the staffing level is sufficient. The Committee believes that the work product of the Inspector General, both audits and investigations, is useful not only to the Secretary of the Treasury but also to the Committee as it exercises its oversight of the Department. Given Treasury's role as the nations' bursar as well as its roles in enforcing economic sanctions and embargoes and in compiling and analyzing data on financial crimes, the Committee believes that a healthy, independent inspector general operation is vital not only to efficient operation but to continued cost-control efforts. Additionally, the Committee believes that increasing the number of audit positions at the office would be useful to provide ongoing analysis of a variety of regulatory and compliance operations performed by the Department, including coordination between enforcement and regulatory functions and the reliability and usefulness of Bank Secrecy Act and similar data. In particular, the Inspector General has raised questions about the controls on the Treasury Communications Enterprise system (OIG report 06-028) and regarding major Treasury programs handling huge sums that have not been audited recently or at all. Examples include the Financial Management Service's controls over its $1.5 trillion in annual disbursements, which have never been audited, or the Treasury debt-issuance program, involving some $4 trillion, last audited seven years ago. It seems imprudent to leave the OIG chronically under-funded.

OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE

The Committee notes the proposed funding increase for several elements of the Treasury's Office of Terrorism and Financial Intelligence (TFI), which performs vital services in the areas of anti-money laundering and combating the financing of terror. The Committee notes the maturation of this relatively young Treasury office, and will continue to monitor TFI's functions – many highly dependent on up-to-date, scalable and secure computer systems – to make sure the hardware and software as well as the personnel are there to perform its vital tasks.

The Committee notes the increase in funding for the Financial Crimes Enforcement Network (FinCEN), although leaving aside two imperfectly funded initiatives, the request is only slightly over what would effectively level-fund this increasingly important element of the government's fight against the financing of terror. The FY 2007 request is for $89.8 million (up from $72.9 million) including $10 million for the new cross-border wire transfer program, and $2.5 million to continue the build-out of the new dedicated state-of-the-art computer system with secure web portal that is known as BSA Direct. The Committee will continue to monitor implementation of this system to determine whether it is meeting the goal of reducing the cost to the private sector of complying with the government's anti-money laundering and counter-terror financing initiatives. Given the potential of this system to aid law enforcement in the effective collection of data on cross-border wire transfers, an initiative of the Committee included in the 2004 intelligence reform bill, the Committee will continue to oversee its implementation to determine whether it is meeting its goal. The budget request also includes a modest staff increase of 22.

The Committee notes the budget request for $21 million to complete construction of the Treasury Foreign Intelligence Network (TFIN), a secure and compartmentalized computer system to handle all of the classified information for the Department, most of which resides in TFI in the form of data used by the Office of Foreign Assets Control (OFAC) and FinCEN. The Committee notes the $1.3 million increase in the budget request to finish staffing the office of TFI's Assistant Secretary for Intelligence and Analysis, and will closely monitor further developments at this office to ensure that it does not begin to duplicate functions already being performed by FinCEN or OFAC.

The Committee notes the request of $24.26 million in FY2007 for OFAC, representing a proposed increase of 13 full-time jobs – eight to focus on economic sanctions against terrorist network and five to focus on Executive Order 13382 which deals with weapons of mass destruction. The Committee also notes that the budget request for Treasury's Office of General Counsel includes three full-time positions to assist OFAC in fulfilling its functions. The Committee recognizes that the budget request cannot be compared to the $22 million request for FY 2006 owing to the transfer of 23 fulltime positions to perform tasks that are largely OFAC-related at the Office of Intelligence Analysis. Nevertheless, the Committee notes the budgeting of about $600,000 for yet more study of information technology needs at OFAC. The Committee will review OFAC's lack of a dedicated, state-of-the-art IT system and a user-friendly web-based secure portal to determine whether the lack of either or both has had a negative effect on the office's rapidly expanding list of functions or has unduly penalized US corporations seeking legitimate licenses to do business with countries that are under some form of sanction. The Committee will explore whether the investment of a relatively small sum over a relatively short period of time would vastly increase OFAC's effectiveness and user-friendliness, in a manner similar to what is envisioned for FinCEN with its dedicated computer system and its BSA Direct secure web portal. Similarly, the Committee will assess whether OFAC should be funded to form an advisory group similar to FinCEN's BSA Advisory Group to initiate a continuous dialog with government and private-sector entities that interact with OFAC to identify and ameliorate glitches or inconsistencies in those relationships.

The Committee is continuing its study of the organization of TFI itself and of the remaining Treasury Department enforcement components in light of the transfer of a significant portion of Treasury's enforcement functions to the Department of Homeland Security. The Committee continues to believe that the Department must make a more disciplined and comprehensive effort to reorganize and revitalize its enforcement activities.

TREASURY ATTACHE PROGRAM

The Committee notes Treasury's initiative to increase its presence overseas, adding 10 new fulltime positions as Treasury attaches in embassies, funded with a proposed budget increase of $9.4 million. The Committee welcomes the initiative in view of the importance of financial services in an increasingly globalized economy and the increasing complexity of negotiations on corporate governance and regulatory issues, but notes that as this funding request is only for a part-year figure, the true cost of the program is less-well understood. The Committee will monitor the program to assess whether funding increases will be required in FY 2008 to maintain these levels.

UNITED STATES MINT AND THE BUREAU OF ENGRAVING AND PRINTING

The Committee notes with approval that the President's budget message this year does not include mention of the FY 2005 proposal to study the advisability of combining the Department of Treasury's two money-manufacturing bureaus, the Bureau of Engraving and Printing (BEP) and the United States Mint (Mint). The Committee also notes that both operations have continuing redesign efforts underway, including BEP's redesign of the $100 and $5 notes, expected to be undertaken in 2007, and the Mint's ongoing "circulating commemoratives" quarter-dollar, the new pure-gold bullion coin that will be issued in 2006, and the "Presidential $1" redesign of the "golden" one-dollar coin that starts at the beginning of calendar year 2007. The Committee will watch each of these efforts closely to ensure that appropriate and viable anti-counterfeiting devices are chosen for the new banknotes, as well as the management of design requirements and rollout of a new one-dollar coin design.

The Committee notes ongoing cost-control efforts at both bureaus. However, just as at this time last year, the Committee is awaiting a long-overdue study by the Mint regarding the further privatization of some of the Mint's manufacturing options, which should have been completed years ago. The results of this study may fundamentally change the underlying assumptions regarding the cost of the Mint's operations. The Committee once again notes the apparent recurrence of concerns regarding internal control issues at the Mint of the sort raised by both the Office of Inspector General and the Government Accountability Office (GAO) in previous years, as well as the fact that the Mint has for some time been operating with uncertainty about who will assume directorship of the bureau..

The Committee will continue to evaluate proposals by the Mint to build a "museum" or sales and display area on the first floor of its headquarters building, but remains skeptical that the Mint has an adequate business plan or a realistic spending goal in mind as it proposes the project. While the Committee is sympathetic to the Mint's goal of establishing a sales area in the space, the idea that a bureau would create its own museum remains an unproven concept and raises potentially expensive security issues – especially in a leased building.

Finally, the Committee plans to examine at least one potential area of cost savings for the Mint and BEP. Both the Mint and BEP maintain their own separate security forces. Given the ongoing mission of the Secret Service to prevent the counterfeiting of U.S. coins and currency, and given that the Service already provides perimeter security at the Department of the Treasury, the Committee may examine whether consolidating these forces into the existing structure of the Secret Service would yield taxpayer savings as well as streamline operations.

UNITED STATES SECRET SERVICE

The Committee notes that the budget message contains no specific funding lines in the Secret Service's Office of Investigation for its Electronic Crimes Task Force (ECTF) or anti-counterfeiting program, both vital to Committee interests, and notes that while the budget request for the Service increases funding modestly, by $62 million to $1.47 billion, is basically level-funding plus the ramp-up for the Presidential campaigns and for a detail to cover President Bush after he leaves office. The Committee was concerned last year at an inadequate budget request for either the ECTF or for anti-counterfeiting efforts, and events in the intervening year only strengthen the conviction that these efforts ought to be separately budgeted, and the budgets enhanced. While the Committee is not the authorizer for the Department of Homeland Security, it has a direct interest in the success of the task forces and believes an expansion of the program would be a direct benefit to all financial-services sectors under the Committee's jurisdiction.

These regional task forces are a model of public-private cooperation, melding Federal, State and local law enforcement, academia, the private sector, and various non-governmental organizations that have interlocking interests in preventing a variety of crimes ranging from identity theft to money laundering, the financing of terror, and sex crimes involving women and children. Given the success of the task forces in trust-building between these often-estranged public and private groups and law enforcement, as well as in the speeding up—or in some cases the initiation—of the information flow leading to crime prevention or solving, the extraordinary leveraging of small amounts of funding for equipment and training cannot be overstated. The Committee views the task forces as important tools to protect the safety and soundness of the financial services sector and especially in view of the meteoric increase in Internet- and computer-based crimes, urges an expansion of their funding.

The Committee strongly believes that the Service does an exemplary job of suppressing counterfeiting at home and of working with other countries' governments and law enforcement to detect or prevent the counterfeiting of U.S. currency and security documents abroad. However, the Committee is concerned that a lack of an identifiable anti-counterfeiting budget line has led to rapid recent turnover at the top of the Service's anti-counterfeiting program at a time when a massive, ongoing state-sponsored counterfeiting program in North Korea was spewing out millions in bogus $100 notes.

The Committee may examine, especially in a time of increased terrorism and rapid globalization of financial markets, the appropriate level of investment in manpower and supplies of our overseas Service liaisons to ensure that they have the necessary resources in the fight against counterfeiting and electronic crimes. Developing countries often lack the technical expertise to write, pass, implement, and enforce adequate laws against counterfeiting and money laundering activities, and in the cases where the Service has been able to invest even a single agent in a country, the results often have been dramatic. Given the increased need to know with certainty the true identities of the originators and recipients of financial transactions, and given the ongoing threat of terrorist acts being funded with the proceeds of counterfeiting U.S. or other currencies, the Committee feels that identifiable, ongoing funding to address this specific purpose is vital.

Finally, the Committee will continue to monitor the integration of the Service into the Department of Homeland Security, both in terms of the Service's mission and consistency with the Department's operations and responsibilities.

Debt Relief and Technical Assistance

The Highly Indebted Poor Countries (HIPC) Initiative was created in 1996 to coordinate efforts made by the international financial community, including multilateral organizations and governments, to reduce the sustainable levels of external debt for the most heavily indebted poor countries. Two years later another debt relief program, the Tropical Forest Conservation Act (TFCA), was enacted to offer eligible developing countries options to relieve certain official debt owed the U.S. while at the same time generating funds to support local tropical forest conservation activities.

Given the importance of multilateral debt relief to the long-term debt sustainability of developing countries, the Committee supports the President's request to provide $182.8 million for the Trust Fund for the HIPC and TFCA debt reduction programs. In the 108th Congress, the Committee requested that the Government Accountability Office examine different ways to measure debt relief and looks forward to continued oversight activities on debt relief issues. The Committee will work with the Administration to help ensure that the money allocated to debt reduction for the poorest countries provides an incentive for these countries to implement policies that foster macro-economic growth and reduce poverty.

The Administration's request for an increase in technical assistance funding, to $23.7 million, is a significant recognition of the importance of Treasury's international role. These funds will help the Department address such issues as money laundering and terrorist financing and provide greater assistance to countries that seek technical support for financial reform.

EXPORT-IMPORT BANK OF THE UNITED STATES

In the 107th Congress, the Committee reauthorized the Export-Import Bank (the Bank) for four years (Public Law 107-189), and will work to reauthorize the Bank again in 2006. The Bank serves an important function in facilitating the export of U.S. goods to foreign markets in counterbalance to the support provided by foreigner export credit agencies to companies competing with American businesses internationally. This year's reauthorization will seek to mandate permanent changes for the Bank to sustain departments that will service small business transactions. The Committee will continue to support investment by the Bank in technology and will seek to promote greater accountability by the Bank.

The Committee notes that the Administration's budget request of $26.4 million to finance the Bank's loan guarantees, credit insurance, and other products reflects a significant decrease from the $99 million appropriated in FY2006. At the same time, the Administration has requested $75.2 million in administrative funds for the Bank, an increase of over $2 million from last year. Because approximately $150 million in carry-over funds will be available for use in FY 2007, however, the budget decrease will not have a negative impact on Bank operations.

INTER-AMERICAN DEVELOPMENT BANK PROGRAMS

The Multilateral Investment Fund (MIF) was established in 1993 as a special mechanism of the Inter-American Development Bank Group (IADB) designed to assist countries in Latin America and the Caribbean transition to the global market economy. The U.S. and Japan assumed leading roles in the MIF, each pledging to contribute $500 million. Last year, the U.S. committed to an additional $150 million contribution to be paid over a six-year period; the first payment of $25 million is due in 2007. The Committee supports the Administration's request for the full amount.

The major source of technical assistance grants for micro and small business development in the region, the MIF will need to be reauthorized by the Committee in 2006. The Committee intends to hold a hearing this year to examine all aspects of the MIF, including the fact that arrearages owed to the MIF by the United States stand at $26.8 million. Administration requests in the last three years to fully pay the arrearages were cut in the Appropriations process, though a token amount of

$1.7 million was directed towards repayment of these arrearages in the FY 2006 budget. The Committee strongly supports meeting U.S. obligations to the Multilateral Investment Fund.

Another mechanism of the IADB, the Inter-American Investment Corporation (IIC), was established in 1986 to promote and support the development of the private sector and capital markets in its Latin American and Caribbean member countries by fostering the development of small and medium-size enterprises. In order for the U.S. to become current and to be able to fund the 8th installment of its obligations, the FY 2007 budget should have included a request of $53.080 million for obligations and arrearages. No money was included in the budget. Given the fact that the U.S. voting power may be reduced if the United States does not make promised payments, the Committee strongly supports meeting U.S. obligations to the IIC.

MILLENNIUM CHALLENGE ACCOUNT

On January 23, 2004, the President signed into law the Consolidated Appropriations Act (Public Law 108-199), which authorized the Millennium Challenge Account (MCA). The MCA is an innovative foreign assistance program designed to "reduce poverty through growth" in some of the poorest countries of the world. The funds in the MCA are distributed to developing countries that demonstrate a strong commitment toward good governance, the health and education of their people, and sound economic policies that foster enterprise and entrepreneurship.

The MCA is headed by a Cabinet-level board of directors, including the Secretary of the Treasury. The Committee continues to have an oversight role over the MCA since the Committee has jurisdiction over the international activities of the Department of the Treasury. The Committee also has an interest in encouraging consistent development assistance policies.

The Committee strongly supports the Administration's request for a $3 billion for funding of the MCA, especially given the compacts previously approved and the fact that the Millennium Challenge Corporation (MCC) is awaiting proposal submissions from six countries.

FINANCIAL SERVICES REGULATORY RELIEF

In November 2005, the Committee approved by a unanimous vote H.R. 3505, the "Financial Services Regulatory Relief Act of 2005." This bill is intended to alter or eliminate statutory banking provisions in order to lessen the growing regulatory burden on insured depository institutions, as well as make needed technical corrections to current law. H.R. 3505 contains a broad range of constructive provisions that, taken as a whole, will allow banks, thrifts, and credit unions to devote more resources to the business of providing financial services and less to compliance with outdated and unneeded regulations. While effective regulation of the financial services industry is central to the preservation of public trust, this legislation will benefit consumers and the economy by lowering costs and improving productivity. The Committee anticipates House consideration of this bill in the near future.

In its analysis of H.R. 3505, CBO estimated that the bill would reduce federal revenues by $42 million over the next five years and by a total of $120 million over the 2006-2015 period. In addition, CBO estimated that direct spending would increase by $2 million over the next five years and by a total of $7 million over the 2006-2015 period. Provisions affecting programs funded by annual appropriations would cost another $4 million, according to CBO, assuming appropriation of the necessary amounts.

INTEREST ON STERILE RESERVES

In May 2005, the House passed H.R. 1224, the "Business Checking Freedom Act of 2005," authorizing the Federal Reserve to pay interest on reserves that depository institutions are required to hold at Federal Reserve Banks against their customers' transaction accounts. Similar legislation passed the House in the 108th Congress, first as part of H.R. 758, the Business Checking Freedom Act of 2003, and later as part of the Financial Services Regulatory Relief Act of 2004, but was never considered in the Senate. The Committee anticipates Senate action later this year. For the reasons outlined below, the Committee expects that the enactment of the legislation in the 109th Congress would have little effect on the FY 2007 budget.

Under the Federal Reserve Act, banks, thrifts, and credit unions are required to maintain reserves at Federal Reserve Banks based on the volume of transaction accounts that they hold. Because the Federal Reserve pays no interest on such reserves, they have come to be known as "sterile reserves." Depository institutions have developed techniques for minimizing their reserve requirements, chiefly through "sweep" programs that permit funds to be transferred out of reservable transaction accounts into non-reservable instruments, such as money market deposit accounts, at the end of each business day. As a result, reserve balances at the Federal Reserve Banks have declined dramatically in recent years, falling from approximately $28 billion in 1993 to approximately $7 to 8 billion a decade later. According to the Federal Reserve, the precipitous decline in reserves has potentially adverse consequences for its ability to conduct effective monetary policy, and the Fed has therefore strongly supported legislation to permit it to pay interest on reserves.

CBO's analysis of H.R. 1224 concluded that the payment of interest on reserves would cost approximately $578 million over 5 years (FY 2006-2009). However, because the legislation offset this cost through 2009 by mandating the transfer of an equal amount of Federal Reserve surplus funds to the U.S. Treasury, CBO deemed the legislation to be effectively budget-neutral for the period 2006-2009. If budget offsets are not found for subsequent years, CBO estimated that the legislation would result in a loss of revenues for the period 2010-2015 of approximately $1.8 billion.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The Community Development Financial Institutions Fund (CDFI Fund) was established by the Riegle-Neal Community Development and Regulatory Improvement Act of 1994 to encourage financial institutions to provide funding and technical assistance for economic development initiatives in distressed communities.

The Treasury Department administers the program, which awards grants to banks, credit unions, and other entities that have been certified as eligible CDFIs. While the program's authorization expired in 1998, it has continued to receive appropriated funds in the years since, including $55.5 million in FY 2005 and $55 million in FY 2006 to be available through FY 2007.

The Administration's budget request of $8 million for FY 2007 is a significant decrease in funding. Recognizing the importance of the goals of the CDFI Fund and funding for its economic revitalization and community development activities, the Committee is concerned with this reduction in the program's FY 2007 budget.

HOUSING AND COMMUNITY OPPORTUNITY

The importance and relevance of a Federal role in housing and community and economic development could not be clearer than during the horrific events surrounding Hurricanes Katrina, Rita, and Wilma. With over 1 million American affected by an emergency housing and community crisis in the Gulf Coast region, the Federal government's response as well as coordination with local and state governments, non-profit and faith-based organizations will be critical in the ensuing years. As a result, the Committee places increased importance on the Administration's proposed housing and community development budgets that include the Department of Housing and Urban Development (HUD), the Rural Housing Service (RHS) administered by the U.S. Department of Agriculture, the National Reinvestment Corporation and the National Flood Insurance Program (NFIP) administered by the Federal Emergency Management Agency (FEMA). At the outset, the Committee acknowledges that programmatic success should not be based on multiyear comparative Federal funding levels, but rather on whether the program or line-item met its program objectives and relevance in a manner that maximizes taxpayer investments in homeownership, community and economic development without duplicating successful private-sector initiatives.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

For the FY 2007 budget year, the Administration proposes $33.6 billion for programs administered by the Department of Housing and Urban Development (HUD). In releasing the details of the budget, Secretary of HUD Alphonso Jackson stated that "The President's proposed budget is a real investment in building a society based on ownership and reaching out to those people and places in need to make sure every American has a place to call home. This budget places a premium on demonstrating results and allows HUD to sustain our core programs that are built on compassion while we continue to improve the way we serve communities around this country."

Over the last several years, the Administration has sought to change the direction of many of our nation's housing programs. Rather than merely addressing symptoms, the Administration has proposed changes designed to promote economic opportunity and ownership.

The Committee is pleased that the budget continues the President's commitment to increasing homeownership and to fostering an "ownership society."

Homeownership is the key to financial independence. It helps build stronger communities and offers children a stable and positive environment in which to grow and develop. According to the U.S. Census, at the end of the fourth quarter of 2005, the number of American families who owned their own home continued to approach the 70 percent rate, with non-Hispanic White homeownership at 76 percent, Black homeownership at 48 percent and Hispanic homeownership at 50 percent. These are impressive statistics, but the Committee believes that private and public-sector initiatives could do better to close the opportunity gaps that exist in the country. The President's budget includes a number of initiatives to continue narrowing the homeownership gap, such as continued funding for both the American Dream Downpayment Program and for housing counseling initiatives. This year, the Administration proposed a flexible FHA (Federal Housing Administration) product that, by design, would increase homeownership in very low-income communities.

While homeownership policy continues to be the best way to strengthen families and improve communities, the Committee also recognizes that there are those families that are not yet ready or able to pursue the American dream of homeownership. For those working-class and low-income families and individuals, there is a growing need for affordable rental housing units. The availability of more affordable rental housing could provide the foundation for low-income families to save financial resources and prepare for homeownership. However, in areas where there is a severe shortage of affordable rental housing, low- and very-low income families will find it difficult to prepare for the American dream of homeownership when they are faced with paying, in some cases, more than fifty to sixty percent of their gross income for rent. Additionally, a by-product of this affordable housing shortage is the negative impact on local businesses who find it increasingly difficult to retain workers or maintain productivity or flexibility when employees must commute extraordinary distances to and from work.

To date, the Housing Subcommittee held sixteen hearings during the 109th Congress. While the agenda last year anticipated reform of the Housing Choice Voucher program as well as administrative reforms to the Federal Housing Administration (FHA), the hurricane events of August 2005 trumped any earlier initiatives as the Committee focused on the impact of the devastation. The Committee anticipates that further reforms to housing programs will be accomplished this year, with a focus on Gulf Coast recovery.

Community Development Block Grant. The Community Development Block Grant (CDBG) program was created in 1974 to consolidate a variety of grant programs that were focused on urban and community development. At the time, CDBG was envisioned as a simpler process providing great flexibility for state and local decision makers to determine local needs that primarily benefit low- and moderate income neighborhoods and citizens. Some of these eligible activities include: the acquisition of real property; rehabilitation of residential and nonresidential properties; provision of public facilities and improvements, such as water and sewer, streets and neighborhood centers; clearance; homeownership assistance; and assistance to for-profit businesses for economic development activities.

The President's FY 2007 budget proposal would "reform" the CDBG program in two ways by providing formula changes that require tighter low-income targeting to communities with little funding resources and by providing bonus funds to communities who expand homeownership and opportunity. As a result, the

Administration's proposal would eliminate HUD programs--the Brownfields Economic Redevelopment Initiative, Rural Housing and Economic Development, and Section 108 Loan Guarantees, with the understanding that these functions will be allowed under the existing CDBG program. In terms of FY 2007 funding, the Administration's proposal would be funded at $3.032 billion, which represents approximately a 27 percent decrease from FY 2006 actual funding at $4.178.

The Committee recognizes that any formula change for any program is problematic in that there will be winners and losers after the change is implemented. Moreover, the Committee understands that a program such as the CDBG should warrant review and the program itself should constantly update itself to reflect the contemporary needs of our communities. In this case, there is little doubt that a 32 year-old year program without formula changes or little programmatic changes is long overdue. However, the Committee also notes that the Administration made dramatic proposals last year in its FY 2006 budget proposals that never culminated in formal legislative proposals.

With that background, the Committee recognizes and applauds the Administration's attempt to again update the CDBG program to reflect new community needs and to direct these Federal funds to the neediest neighborhoods and residents. The Committee believes, however, that its rationale is not based on any solid empirical data or reliable reporting system that quantifies and assesses the program's accomplishments or failures. During the Committee's hearings on the FY 2006 budget, the Office of Management and Budget evaluated CDBG as a non-performing program through its PART analysis. Yet, upon closer review, it was unclear to the Committee that CDBG ever had a decent reporting system that could quantify and measure results. According to a National Academy of Public Administration study in 2005, attempts by the Administration and its predecessors to quantify and assess the achievements of the CDBG program were met with technological failures. For example, HUD's current reporting system uses COBAL, a programming language first developed in 1960.

Furthermore, as the House Government Reform Committee noted in it its Fifth Report [See Report 109-365]:

> The administration's PART analysis, while successful in identifying key opportunities for reform of some programs, may not be an appropriate evaluative tool for the Community Development Block Grant program because of its flexibility. The administration should consider whether alternative analytical tools exist that can better measure the CDBG program.

Therefore, while there is anecdotal evidence to suggest that a dramatic overhaul is warranted, the Committee finds any empirical data or reporting system inadequate to provide necessary information to allow the Congress as well as the Administration the appropriate tools to make key decisions. The Committee believes that the proposal needs further work to assess the fairness of the current formula driven program as well as better information in order to assess the future goals and benchmarks of the program. In time, with a better reporting and data system, the necessary overhaul can be accomplished in a more fair and prudent manner.

HOME—The HOME Investment Partnerships. The HOME program provides grants to states and local governments to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans. Eligible uses include downpayment assistance; tenant-based assistance; housing rehabilitation; assistance to homebuyers; and new construction of housing. The Administration proposes $1.9 billion for the HOME program in FY 2007, compared to $1.757 billion enacted in FY 2006, representing an approximately 8 percent increase. The Committee applauds the Administration's focus on homeownership and notes that the HOME program leverages approximately $4 for every $1 of appropriated funds, indicating significant private-sector involvement in the development of affordable housing.

Brownfields. The Brownfields Economic Development Initiative (BEDI) program is important to our communities because it assists local governments in returning contaminated sites to productive uses. Unlike Brownfield programs in other agencies, the main focus of the BEDI program is economic development. The BEDI program gives local communities a valuable tool to address blight, create new jobs, and expand their tax base. HUD proposed in the FY 2003 budget to decouple the BEDI program from the Section 108 CDBG loan guarantee program. The Committee supports this decoupling, as evidenced by House passage of H.R. 280, and urges HUD to follow through on this proposal. The BEDI program can be a powerful tool for communities interested in brownfields redevelopment, and the Committee supports retention of the program and efforts to make it accessible to more communities.

The Committee notes with concern the elimination of funding for the Brownfields Economic Development Initiative (BEDI) and the proposal to include Brownfields redevelopment as an eligible activity under the Community Development Block Grant. The Committee believes the House has spoken clearly about the importance of the BEDI program. Last year, the House of Representatives unanimously approved an amendment to provide $24 million for the BEDI program in the FY 2006 appropriations bill, and the final conference report provided $10 million. In addition, the House of Representatives recently passed H.R. 280, the Brownfields Redevelopment Enhancement Act, to provide greater access to the BEDI program. The Committee believes that to stop funding now or make the program even less accessible for communities would undermine the work of the House.

GSE Housing Goals. In HUD's 2007 budget, the Administration continued with the increases first set out by HUD in 2004, whereby HUD increased all three housing goals (low-and-moderate-income, special affordable, and underserved communities) gradually from 2005 to 2008, with the sub-goal in each category for home purchases. In 2007, the levels are 55 percent for low-and-moderate-income, 25 percent for special affordable and 38 percent for underserved communities. The Committee applauds the Administration's efforts to expand homeownership through a variety of avenues, including ensuring that Government Sponsored Enterprises (GSEs) meet their responsibility to provide housing opportunities for all Americans.

In an attempt to enhance GSE housing goals, the Committee passed H.R. 1461, the Federal Housing Finance Reform Act of 2005 (FHFRA) on May 25, 2005. This legislation "rewrite[s] existing law to provide clarity and realign with the needs of low-income communities as well as financial institutions who are serving these low- and very-low income communities and families." (Rept. 109-171, Part 1 at page

82) Under FHFRA, the Director of the new Agency will set the housing goals with the same regulatory requirements as for the Community Reinvestment Act-type loans with which financial institutions must comply: 80 percent for low-income, 50 percent for very-low income and 60 percent in cases where low income housing tax credit properties are involved. The Committee believes this realignment will match the needs of the financial services industry to provide liquidity and incentivize further investment in low- and moderate-income families and communities.

Federal Housing Administration. The Administration's FY 2007 budget proposes comprehensive reform for the Federal Housing Administration's (FHA) single-family mortgage insurance activities. While HUD has yet to submit the legislative proposal, it plans to introduce an array of products to more fairly price FHA's guarantee to individual borrowers. FHA will base each borrower's mortgage insurance premiums upon the risk that the borrower poses to the FHA Mortgage Insurance Fund. Under this proposal, the mortgage insurance premiums will consider the borrower's credit history, loan-to-value ratio, debt-to-income ratio, and will be based on FHA's historical experience with similar borrowers. The Administration believes that this change will decrease premiums for many of FHA's traditional borrowers, thereby increasing their access to homeownership. The Committee applauds the goal of enabling FHA to respond more flexibly to changing market conditions and to offer new products specifically designed for hard to reach families. Once the proposal is made available, the Committee will carefully consider its merits.

Since its inception in 1934, FHA has played an innovative role in financing homeownership and affordable housing opportunities for all Americans. Over the past eight years alone, FHA has financed nearly eight million homes and over 754,000 units of affordable rental housing. The mortgage market has changed dramatically in recent years, creating what is today the world's most sophisticated real estate finance system. This system has led to the highest rate of homeownership in U.S. history and to the efficient production of thousands of units of affordable rental housing each year.

The Committee recognizes that FHA continues to face challenges in effectively managing its resources and programs in this quickly changing mortgage market. These challenges have already diminished FHA's market share and its ability to serve families not adequately addressed by the conventional mortgage market. Unanswered, these issues will leave the families served by FHA programs with fewer alternatives for homeownership or affordable rental housing. The Committee appreciates the steps the Administration and FHA have taken to rectify this by streamlining its paperwork requirements and removing impediments to its use by lenders and buyers.

Despite the Administration's efforts, the Committee remains concerned that over half of FHA's staff is currently eligible for retirement. Coupled with the loss of qualified staff and persistent hiring restrictions, these factors have inhibited FHA's ability to remove itself from GAO's "high risk" designation. The lack of new employees entering FHA has limited its capacity to renew its leadership role in the housing market and to rejuvenate its workforce with qualified personnel.

On the multi-family side, the Administration proposes an increase in the Mortgage Insurance Premium (MIP) for multi-family apartments for FY 2007. The specifics include an increase of non-Low Income Housing Tax Credit insurance premiums of 32 basis points not to exceed 80 basis points total. The Committee is concerned that this rise in the cost of doing business with FHA could have an adverse effect on rental affordability and could significantly raise the cost of affordable rental apartments.

It is important to note the Mark-to-Market program authority expires in 2006. The Committee intends to look at the current status of the program and what further steps are needed to enhance the effectiveness of HUD's restructuring and preservation efforts.

American Dream Downpayment. On December 16, 2003, the President signed P.L. 108-186, the American Dream Downpayment Act. Under this program, HUD may award grants to state and local governments to assist low-income families who are first time homebuyers with incomes at or below 80 percent of the local area median income. This year, the FY2007 Budget provides $100 million to fully fund this initiative. The American Dream Downpayment initiative (ADDI) has helped nearly 14,000 families to purchase their first home, nearly half of whom are minority. The Committee supports this important homeownership program, which allows first-time homebuyers to purchase a home.

Financial Literacy and Housing Counseling. The Committee continues to believe that counseling is an important component of the successful homeownership process. Homebuyer education is the most cost effective way to educate renters and homeowners to help them make informed financial choices and avoid high-risk, high-cost loans that place them at greater risk of foreclosure. The Administration's budget requests $45 million (a $3 million increase) to prepare families for buying their first home, help them steer clear of predatory lending practices, and assist current homeowners to avoid default. The Committee applauds the Administration's continued commitment to counseling programs and supports the Administration's FY 2007 budget request of $45 million.

Section 8 Housing Choice Voucher Program. The Administration's budget request for the Housing Choice Voucher program is $15.9 billion, an increase of $502 million or 3.3 percent compared with the final appropriation for 2006. This increase is in addition to a $639 million increase to Section 8 Project-Based rental assistance. While the Administration has proposed an increase in funding for 2007, the Committee shares the Administration's concern about the rising cost of the Housing Choice Voucher Program and the effect that this spiraling cost is having on funding for other important HUD programs. The voucher program provides rental subsidies to more than 2 million families nationwide. In 1998, project-based and tenant-based Section 8 programs consumed 42 percent of HUD's budget. That percentage rose to 57 by FY 2005 and will surpass 62 percent in the Department's 2007 budget. In response to the unsustainable cost increases, Congress has converted the previous "unit-based" allocation system to a "dollar-based" system. The Administration maintains that for the dollar-based system to work, program requirements need to be simplified, and Public Housing Authorities (PHAs) need to be provided greater flexibility. The current set of laws and rules that govern the voucher program are complex and cumbersome and they limit the program's effectiveness to help families, many of whom must wait years to receive any help from their local housing authorities. In its budget, the Administration proposes expanding the "dollar-based" approach. Under their plan, the PHAs will continue to receive a set dollar amount as in 2005 and 2006, but they will have the freedom to adjust the program to the unique and changing needs of their community. Further, local PHAs will be able to design their own tenant rent policies, and in turn, reduce the number of errors made, save money, and create incentives to work.

On April 28, 2005, Mr. Gary Miller of California introduced H.R. 1999, The Administration's proposal to reform the Housing Choice Voucher program. On May 11, 2005 and May 17, 2005, the Committee held two legislative hearings entitled, "H.R. 1999, The State and Local Housing Flexibility Act of 2005." The Committee supports the goal of making the existing programs both flexible, efficient and cost effective and looks forward to working with the Administration to craft reform legislation that will create a more efficient and effective program to help low-income families needing of decent, safe, and affordable housing.

Self-Help Homeownership. The President's budget proposes $40 million for HUD's SHOP Program. Under the SHOP program competitive grants are made to national and regional nonprofit organizations and consortia that have experience in providing or facilitating self-help housing opportunities. Under this program, homebuyers and volunteers are required to contribute a significant amount of sweat equity toward home construction. The Committee fully supports the Self-Help Homeownership Opportunity Program and believes it is an important component in achieving the goal of producing new homes for very low-income families.

Hope VI. The Administration again proposes eliminating funding for the HOPE VI program. In addition, the Administration proposes the rescission of $99 million included for HOPE VI in the FY 2006 budget. The Committee understands that while the HOPE VI program has enjoyed many successes, it had also been plagued with accountability and management problems. It is interesting to note that the HOPE VI program was originally established as a 10-year program with the goal of demolishing an estimated 86,000 units of the Nation's worst public housing; The Administration maintains that this goal has been accomplished. Despite the fact that the original goal has been met, the Committee on Appropriations continues to include funding for the HOPE VI program. Congress has resisted eliminating the funding or taking back money already appropriated. Congressman Christopher Shays has introduced legislation in the House (H.R. 3888) that would reauthorize HOPE VI through 2011 and boost funding to $600 million annually. Companion legislation has been introduced in the Senate (S. 1513) by Christopher Bond (MO). It is important to note that during the 108th Congress, this Committee responded to concerns raised regarding the HOPE VI program by considering and approving legislation. In addition to reauthorizing the program through FY2006, the legislation established a new form of HOPE VI grant to be used to fund the redevelopment of distressed Main Street areas in small communities. The legislation included several management changes to make the program more accountable and sensitive to the people it is intended to assist and to address the slow expenditure rate of HOPE VI funds. The Committee will continue to conduct oversight hearings of the program to determine if other changes to the program are warranted and to monitor the implementation of the Small Community Main Street Rejuvenation program.

Homeless Assistance. The Administration will propose legislation this year to consolidate its three competitive homeless assistance programs into a single program. The Administration believes that consolidation will provide more consistent funding, expand eligible activities – including prevention – across programs, eliminate multiple match requirements, and simplify the competitive and award process. The Administration's 2007 budget proposal includes continued commitment to addressing the needs of homeless persons and families. The President's 2007 Budget provides $1.5 billion through HUD's *Continuum of Care* homeless assistance grants, $209 million more than in 2006. According to the Administration, this funding will provide emergency, transitional, and permanent supportive housing to more than 160,000 persons. The Committee applauds the Administration's continued commitment to addressing the needs of homeless persons and families and looks forward to working with the Administration to accomplish that goal. In addition, the Committee is pleased to see that the Administration remains committed to the goal of ending chronic homelessness and stands ready to assist the Administration in reaching that goal.

Housing Opportunities for Persons with AIDS (HOPWA). The President's budget seeks $300 million to support stable housing, improved access to health care and more supportive services for low-income persons living with HIV/AIDS, an increase of $14 million over FY 2006. Through formula grants to states and local communities, as well as competitively awarded grants, these resources will provide critically needed housing assistance to more than 75,000 families. The Administration's budget includes a proposal that would allow HUD to change the formula so that the distribution of funds is more equitable and recognizes housing cost differences in communities across the country. The Committee believes that HOPWA is an important program that deserves continued funding and supports efforts to increase funding. The Committee will carefully review the Administration's proposal to change the HOPWA proposal and will work with the Administration to enhance efficiency and effectiveness of the program.

Public Housing. The President's FY 2007 budget includes $3.5 billion for the Public Housing Operating Fund to fund local housing authorities in their daily operation and $2.2 million for the Public Housing Capital Fund to help local housing authorities fund major repairs and modernization in their housing units. This $2.2 billion represents an 11 percent reduction from the FY 2006 funding level. There are about 1.25 million units of public housing worth an estimated $90 billion in the United States. Preserving our public housing stock is fundamental to maintaining adequate levels of affordable housing in this country. The increasing cost of preserving current public housing units dictates that we examine the current program and identify new alternative ways to address this problem. The Administration is committed to the implementation of the Public Housing's Capital Fund Financing Program. This program allows PHAs to borrow from banks or issue bonds using future Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, the Administration believes that PHAs are able to leverage the Capital Funds to make improvements.

In 1998, Congress directed HUD to undertake the Harvard Cost Study, a review of public housing costs analyzing how PHAs manage their units supports moving toward a project based management. The Administration is committed to implementing the congressionally mandated formula for allocating subsidies for public housing operations and intends to implement the formula by FY 2007. As explained in their budget, the implementation will include transitioning the management of public housing to an asset-based model similar to how private-sector multifamily housing is managed. Project based accounting is scheduled to be implemented in FY 2007 and asset based management by FY 2011.

The Committee shares the Administration's concern about the rising cost of maintaining the current public housing stock. The Committee supports removing confusing and restrictive federal regulations that prevent state and local governments from developing creative and efficient ways to address their particular concerns. Furthermore, the Committee believes that providing PHAs with greater flexibility will help to address the rising costs associated with maintaining the current public housing stock. The Committee will review the Administration's proposals carefully and looks forward to working with the Administration to create a more efficient, cost effective system that both preserves current stock and promotes the creation of additional affordable housing for low-income families.

Housing for the Elderly (Section 202). The President's budget includes $545 million for the Housing for the Elderly Housing (Section 202) program. This represents a 26 percent reduction compared to FY 2006. The President has proposed an increase to $59 million from $51 million in FY 2006 for the service coordinator program and once again the elimination of the predevelopment grants. The Administration believes that this budget request will allow for renewal of all expiring rental assistance contract and amendment funds for qualifying increased costs of pipeline construction projects. This budget is consistent with the Administration's desire to investigate ways that Housing for the Elderly can be reformed to make the program more efficient and cost effective. Section 202 provides assistance to expand the supply of housing with supportive services for the elderly. The Administration intends to investigate ways that Housing for the Elderly can be reformed to make the program more efficient and cost effective. The Committee understands how important it is to reevaluate programs and seek ways to improve their administration and operation. However, the Committee recognizes the significant role this program plays in meeting the housing needs of this most vulnerable segment of our population and wants to be sure not to compromise the mission of the Housing for the Elderly program.

Supportive Housing for Persons with Disabilities (Section 811). The Section 811 program provides assistance to expand the supply of housing equipped with supportive services for persons with disabilities. The Administration has again proposed a significant reduction in funding for the Section 811 program in its FY 2007 budget. The FY 2007 budget requests of $119 million compared to $237 million enacted in 2006. This funding level represents almost a 50 percent reduction. Nearly all of this proposed reduction would come from the portion of the 811 program that produces new units of permanent supportive housing, the capital advance/project-based side of the program, i.e. capital grants and project-based rental assistance directed to non-profit disability groups that develop supportive housing (specifically, housing targeted to individuals with severe disabilities who need services directly linked to their housing). The Committee recognizes that the disabled population has special housing needs. For this reason, the Committee will review the Administration's section 811 budget proposal very carefully to determine their impact on this most vulnerable population.

Government National Mortgage Association (Ginnie Mae). The Administration proposes a discretionary appropriation of all of Ginnie Mae's administrative expenses and eliminating Ginnie Mae's previous mandatory spending authority. The budget also proposes to charge Ginnie Mae issuers an up-front fee to offset the administrative expenses of the program. For FY 2007, the up-front fee assessed on new guarantees of mortgage-backed securities would be slightly over six basis points (six cents for every $100 of mortgages). The Committee will look at whether this up-front fee will have a detrimental effect on housing affordability and first-time homebuyers and minorities who rely on FHA loans to achieve homeownership.

RURAL HOUSING SERVICE

The U.S. Department of Agriculture's Rural Development (RD) mission area administers programs that are designed to meet the diverse needs of rural communities with a variety of loan, loan guarantee, and grant programs, which include technical assistance and cooperative development. Within the RD mission area is the Rural Housing Service (RHS). It has two primary programs und this Committee's jurisdiction – Single Family Housing and Multi-Family Housing.

RHS is responsible for providing decent, safe, sanitary, and affordable housing and community facilities in rural communities. It issues loans and grants for rural single family houses and Rural Rental Housing (RRH) apartment complexes. RHS applicants may include individuals, private organization, and public entities.

In its FY 2007 budget proposal, RHS continues to address a multitude of management and budget challenges in both its single and multifamily housing programs. RHS's budget contains a reduction in its Section 515 direct loan program, by eliminating funding for new loans, and shifting resources towards the more flexible Section 538 guaranteed loan program.

RHS continues to have a portfolio of about 17,000 existing multi-family projects that provide housing for about 470,000 low-income tenants, many of whom are elderly. These projects were primarily built in the 1980s and in many instances are in need of repairs and rehabilitation. The projects have an outstanding indebtedness of about $12 billion. Recently, the Supreme Court ruled in favor of Section 515 project owners who wished to prepay their loans and remove their property from the subsidized market. Legislation, sponsored by Congressman Geoff Davis of Kentucky, will be introduced this Congress to allow prepayment of certain pre-1989 Section 515 loans. A recent capital needs assessment indicated that about ten percent of these projects are potentially viable for non-subsidized use and could leave the program. There are also concerns about the physical condition of existing projects and the ramifications of allowing projects to leave the program. Both the Committee and RHS support a restructuring and revitalization program that will maintain affordable housing in rural America, protect tenants, and, as a prudent policy, provide potential long-term savings to the Federal taxpayer.

RHS's FY 2007 budget proposal addresses the immediate need to provide assistance for tenants of Section 515 projects that prepay and leave the program. It includes $74 million to be used primarily for rural housing vouchers to be administered, to the maximum extent possible, consistent with HUD's Section 8 program. Upon enactment of Section 515 restructuring legislation, these funds would also be available for debt restructuring and other revitalization incentives.

While the FY 2007 budget does not include loans made directly by the government for Section 515 multi-family housing, it includes $198 million, double the amount available for FY 2006, for Section 538 loan guarantees. The Section 538 program serves a broad range of rural families with incomes up to 115 percent of the area median income who can afford to pay unsubsidized rents. This is in contrast to the Section 515 program which almost exclusively serves very low-income rural families, with average incomes at 50 percent, or below, of area median income. The Administration believes that the more efficient Section 538 guarantee program, which can be leveraged with private dollars, better serves the needs of the affordable rural housing portfolio. Regulations for administering the program were recently revised to make the program a more attractive component of a complete funding package, including access to secondary market funds and use of tax credits and other subsidies. However, only approximately one-fifth of the Section 538 portfolio is comprised of very low-income families. This is a point of concern for the Committee, which is focused on ensuring that the needs of very-low income rural multifamily tenants are met. The Committee urges RHS to more clearly define what effect this proposed reduction in Section 515 funding will have on very low-income tenants.

The Section 502 single-family housing program provides direct and guaranteed loans for the purchase of modest housing in rural areas. The Section 502 direct mortgage program would be increased from \$1.1 billion in FY 2006 to \$1.2 billion in FY 2007, even while RHS is asking for a \$5 million reduction in budget authority. The Committee commends RHS for efficiently administering the Section 502 program. The Administration's FY 2007 budget proposes an increase in the fee on guaranteed 502 loans, from two percent to three percent. In 2005, the one-time fee on new guaranteed loans was increased from 1.5 percent to two percent, and this was maintained for FY 2006. This change was intended to reduce subsidy costs and provide for more manageable growth in the program. In addition, the 2005 appropriations act allowed guaranteed loans to exceed 100 percent of appraised value by the amount of the fee on such loans. This change helped ensure that rural families are not denied home ownership for lack of funds to pay the cost of the fee. The Administration's FY 2007 budget seeks to increase this fee to three percent. The Committee supports the Administration's position, as this minimal increase will reduce the burden to Federal taxpayers while providing an increased source of revenue to RHS. The Committee also wants to ensure, however, that this fee increase does not unnecessarily decrease rural homeownership and hinder the ability of borrowers to secure a Section 502 loan.

The Section 502 and 521 rural rental assistance program provides funding for multi-year contracts with project owners for reducing rent payments to make up the difference between the 30 percent of income the low-income tenant pays and the rent required for the project owner to meet debt servicing requirements. Most of the funding for this program is used to renew expiring contracts on projects that are financed for up to 50 years although dependent on rental assistance that is funded in four-year term increments. The FY 2007 budget proposal includes \$486 million for the rural rental assistance payment program. This amount reflects two-year contracts, rather than the four-year contracts currently in use. The amount needed for renewing existing contracts and funding a limited number of new two-year contracts for farm labor housing projects is substantially less than the \$647 million that is available for 2006. The Administration stated that it is aware that the change to shorter contracts will affect the cycle of renewals and, thus, result in higher costs for renewals in future years. Changes in the cycle are already being felt due to efforts in recent years to align contract obligations more closely to the term of such contracts, as well as to Congressional action in 2004 to reduce the terms of contracts from five to four years. The Administration feels that it will remain committed to meeting the contract renewal needs in future years, and ensuring that a change from four to two-year contracts can be achieved without risk of a disruption in the flow of benefits to low-income recipients of this assistance. RHS noted that the Section 8 program administered by HUD operates with annual contracts. While this may be an effective short-term gesture for reducing budget needs, the Committee cautions that long-term budget goals not be set aside for short-term success. The Committee will monitor this proposed shift in policy to make certain that the reduction in contract terms does not disrupt RHS's long-term efficiency.

The Committee will continue to review the programs under the Rural Housing Service to determine what changes are necessary to address future budget and management challenges.

NEIGHBORHOOD REINVESTMENT CORPORATION

In FY 2007, the Administration is requesting $119.8 million for NRC, which is a $3 million increase from the Administration's 2006 budget. In 2006, NRC received $118 minus a 1% rescission of $1.18 million contained in the recently-adopted reconciliation law. NRC, doing business as NeighborWorks America, was chartered by Congress in 1978. It is the national presence of nearly 240 resident-led, chartered organizations within the NeighborWorks network. In addition to its housing focus, NRC is known for its homebuyer education and training. In FY 2005 and 2006, there was a sub-earmark of $5 million to expand mixed-income, affordable multifamily housing opportunities. The Committee notes that this Corporation leverages $20 for every $1 in appropriated funds for homeownership and affordable rental housing. Recently, NRC has undertaken studies to develop an automated underwriting system that would be tailored towards lower-income, non-traditional borrowers in its quest to expand homeownership. This initiative, as well as other studies and demonstrations, should be partnered with the Federal Housing Administration and other public-service oriented organizations or agencies so that the Federal taxpayer's investment is maximized and the benefits and lessons learned through the Corporation can have a broader appeal and benefit.

FEDERAL EMERGENCY MANAGEMENT AGENCY

The National Flood Insurance Program (NFIP) was created as part of the National Flood Insurance Act of 1968 to enable the federal government to help cover the cost of flood damages. Prior to that time, insurance companies generally did not offer coverage for flood disasters because of the high risks involved. This year, as in years past, the Administration has requested funds for permanent and temporary staff and ongoing operations, including flood mitigation activities and flood map modernization. In addition, the FY 2007 budget includes a legislative proposal to increase the borrowing authority of the NFIP to cover claims from hurricanes Katrina and Rita.

Flood insurance claims liabilities arising from Hurricanes Katrina, Rita and Wilma are estimated at over $24 billion dollars, far surpassing the total claims paid in the entire history of the NFIP. Congress increased the NFIP's borrowing authority in 2005 from $1.5 billion to $3.5 billion, and then again to $18.5 billion. Given the unprecedented insurance claims arising from last year's hurricanes, the Committee supports the Administration's proposal to increase the borrowing authority by an additional $5.6 billion to cover claims and expenses. The Federal Emergency Management Agency (FEMA) is legally obligated to pay claims arising from flood events where policies are in place. Should the NFIP run out of money needed to pay the estimated 225,000 claims from last year, homeowners who are not paid could initiate legal action against FEMA and the U.S. Government.

On November 16, 2005, the Committee ordered reported H.R. 4320, the "National Flood Insurance Program Commitment to Policyholders and Reform Act of 2005." Cosponsored by Chairman Mike Oxley and Ranking Member Barney Frank, this legislation would reform the NFIP and increase FEMA's accountability with respect to the administration of the NFIP. Included in H.R. 4320 is a reiteration of FEMA's responsibilities to implement the "Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (P.L. 108-264), which was signed into law on June 30, 2004. The Committee understands the contractual relationship and legal obligation to meet existing policyholder claim obligations. The Committee will continue to work with FEMA to understand the fiscal condition of the NFIP and to garner better estimates of future borrowing authority needs to ascertain the proper course to follow.

The Bunning-Bereuter-Blumenauer Flood Insurance Reform Act authorized the transfer of funding from the National Flood Insurance Fund to the Flood Mitigation Assistance Program (FMA) and to a new pilot program to address repetitively flooded properties. The Committee supports the funding of the pilot programs in the FY 2007 budget and recommends that the Administration fully fund the FMA using both fee and premium income in the Flood Insurance Fund. Congress recognizes that these repetitive-loss properties constitute a significant drain on the resources of the NFIP, costing about $200 million annually. Comprising approximately one percent of currently insured properties, these properties have in recent years accounted for 25 to 30 percent of claims losses. This Committee will continue to closely monitor the implementation of all the reforms contained in this legislation and urges the Administration to make this implementation a priority.

The Housing Subcommittee of the Financial Services Committee has held four hearings to discuss outstanding flood insurance-related issues since enactment of the Flood Insurance Reform Act of 2004. Given the lingering effects of the 2005 hurricanes, the National Flood Insurance Program will continue to receive close scrutiny. As the Congress continues to examine options for reforming the program to ensure its long-term effectiveness, the Committee wishes to emphasize that continued investment in mitigation funding and aggressive modernization of flood maps are two of the most important priorities to ensure the program's future success.

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COMMITTEE ON FINANCIAL SERVICES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

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Views of Congressman Gary Miller
Regarding the Fiscal Year 2007 Budget for the Department of Housing and Urban Development
February 15, 2006

I commend HUD's proposal to reform the Federal Housing Administration (FHA) so its programs continue to reach the working families it was created to serve. According to HUD, FHA is currently working to remove impediments to its use by lenders and homebuyers. To complement these efforts, for FY2007 HUD proposes to allow FHA to offer lenders new mortgage insurance products to benefit lower income borrowers. According to HUD, "this proposal will restore FHA to fulfill its mission to give families a safe deal at a fair price."

This effort is a necessary addition to the financing options available to first time homebuyers, and it is critical that we ensure it is accessible equally across the country. Currently, FHA products are not an option for homebuyers in high cost areas of the country because the maximum mortgage limit is restrictive in areas where housing is not available at this price. Working families who need and qualify for FHA should not be penalized because of their geographic location. I have introduced legislation with Ranking Member Frank, H.R. 176, which addresses this disparity caused by FHA loan limits and provides consumers in high cost areas the ability to purchase a home with FHA mortgage insurance. I hope the committee and HUD will work with me to address the disparity in accessibility of FHA programs caused by the current loan limit, so homebuyers in high cost areas can benefit from our efforts to increase accessibility to homeownership in this country.

ADDITIONAL HOUSING VIEWS

Summary

Department of Housing and Urban Development (HUD) and Rural Housing Service (RHS) programs are designed to provide a housing safety net for our nation's poorest families and the homeless, to foster economic opportunities for low- and moderate-income families, and to strengthen urban and rural communities.

Unfortunately, the FY 2007 HUD budget further continues a five year effort by the Bush Administration to dismantle or make deep funding cuts to critical federal housing programs. The Administration's assault on housing programs has been targeted to lower income working families and to our most vulnerable seniors, disabled persons, and families with children.

Sadly, this same approach is now being extended to the Rural Housing Service. The FY 2007 Bush Administration RHS budget abandons a 40-year effort to build and preserve rural affordable housing units, and proposes to shift rural homebuyers into more expensive federal mortgage loan products, which will reduce homeownership opportunities.

The FY 2007 budget proposes to cut a number of critical HUD programs by a combined total of nearly $2 billion. If enacted, funding levels for most of the major HUD programs will have suffered substantial reductions in real terms since the Bush Administration took office – including a 53% cut to the Section 811 disabled housing program, a 39% cut to the Section 202 elderly housing program, a 42% cut to Community Development Block Grants (CDBG), a 32% cut to public housing, an 18% cut in Native American housing block grants, a 12% cut to HOME block grants, a 16% cut to Fair Housing enforcement, and a 28% cut to the Youthbuild program.

Moreover, if adopted, the Administration's FY 2007 budget would mean that in just five years, a number of important housing programs will have been eliminated. These include: the public housing Drug Elimination Program (eliminated in 2001) and the HOPE VI public housing revitalization program; Brownfields Redevelopment grants; Urban Empowerment Zone funding; the HUD Rural Housing and Economic Development program; the National Community Development Initiative program (under which LISC, Enterprise, and Habitat leverage private sector funds); CDBG Section 108 loans used by cities to leverage larger economic revitalization projects; and the RHS Section 515 rental housing construction and preservation program.

Affordable Rental Housing

The President's budget abandons a 30 year federal commitment to build affordable housing for persons with severe disabilities. The budget proposes a 50% cut ($119 million)

to the HUD Section 811 disabled housing program. The budget virtually eliminates any funds for Section 811 disabled housing construction, even though that program has been used effectively by Faith-Based Organizations and other non-profit organizations. The Administration offered a similar proposal in last year's FY 2006 budget to eliminate all new construction funding for affordable housing for the disabled, and the Administration even tried to rescind $100 million in Section 811 new construction funding already appropriated for FY 2005.

This major cut would be bad enough if it were simply a misguided policy to move away from site-based housing for the disabled toward a model of tenant-based rental assistance. But, this severe cut comes in the wake of previous Bush Administration actions to cut tenant-based rental assistance for the disabled as well. These actions include a successful effort by the Bush Administration to eliminate funding for a bi-partisan program that had created 40,000 new housing vouchers for the disabled, and Administration proposals to block grant the Section 8 housing voucher program, which would have a particularly disastrous impact on our ability to meet the housing needs of disabled persons.

The President's budget also proposes a 26% cut ($189 million) to the HUD Section 202 elderly housing program. If adopted, funding for the 202 elderly housing program will be 39% lower in real terms than when the Bush Administration took office. This cut to the 202 program comes at a time when over 8.4 million seniors make less than $10,500 a year, and 1.4 million very low income seniors pay more than 50% of their income for rent or live in substandard housing. It is unconscionable that the Administration would propose to cut the Section 202 program that builds affordable housing units for seniors, at a time when AARP estimates that there are nine seniors waiting for each Section 202 unit that becomes available.

The Bush Administration budget continues an unrelenting five year assault on our nation's public housing programs, which serve our poorest families, seniors, and disabled persons. The President's budget proposes another $459 million in cuts to public housing. If adopted, public housing will have sustained a 32% cut in real terms since the Bush Administration took office. Once again the bulk of the cuts are in the Public Housing Capital Fund, which is used to repair and maintain units. For the fourth year in a row, the Administration is also trying to eliminate the highly successful HOPE VI program to revitalize distressed and obsolete public housing projects. While the Administration has not succeeded in killing the HOPE VI program, funding has fallen from $574 million just a few years ago to only $99 million appropriated for FY 2006. Of course, the Administration budget proposes to rescind even this meager $99 million, which was approved by Congress just one month earlier.

The budget spares the Section 8 housing voucher program from the $1.6 billion in cuts the Administration proposed just two years earlier. But the budget promises a continued effort to push Congress to approve the Bush Administration's proposal to block grant the voucher program. This proposal, which Congress has repeatedly rejected on a bi-partisan basis, would eviscerate tenant protections that target vouchers to our nation's poorest families and protect those families from steep rent hikes.

The Administration's block grant proposal would also eliminate the right of housing authorities to rent to a specified number of families, thus facilitating a downward spiral in renewal funding. While Congress has rejected this approach, it has made changes to the voucher renewal formula at the Administration's urging that has resulted in funding levels that HUD itself acknowledges provided less than 96% of voucher renewal needs for FY 2005 and less than 95% of voucher renewal needs in FY 2006. Congressional reliance on an outdated funding formula proposed by the Bush Administration has also resulted in the misallocation of resources, at a time when renewal funding is inadequate.

Finally, to demonstrate that cutting housing funding is intergenerational for the Bush Administration, the budget would also cut 23% from the lead paint program, which is used to ameliorate health risks to children in older apartments with health threatening lead paint hazards.

Community and Economic Development

Cities and counties use flexible Community Development Block Grants (CDBG) to meet critical local community development, infrastructure, and affordable housing needs. Last year's Administration budget proposed to eliminate CDBG as we know it, to consolidate and transfer CDBG and 17 other programs to the Commerce Department, and to cut overall funding for these programs by 35%. Fortunately, this proposal was strongly rejected on a bi-partisan basis by Congress.

Chastened by this rejection, the Administration has backed off from the proposal to eliminate CDBG – but has not backed off from its goal of making severe funding cuts. The FY 2007 budget cuts $736 million (20%) from CDBG block grants. If adopted, funding for CDBG block grants will be 40% lower in real terms than when the Bush Administration took office.

The budget also paves the way for even deeper cuts to CDBG by making an unrealistic proposal not just to zero out the $356.4 million in CDBG member earmarks appropriated last year, but to rescind all of last year's earmarks. Regardless of the merits of member earmarks, this unrealistic assumption leaves a hole in the budget of up to $713 million that could precipitate hundreds of millions of dollars of additional cuts to CDBG or other housing programs.

The President's budget also eliminates funding for a number of other community development programs, including HUD Brownfields Redevelopment grants (funded at $25 million in recent years), Urban Empowerment Zones, Section 108 CDBG loans that cities use to leverage larger scale economic development projects, and National Community Development Initiative (NCDI) grants to LISC, Enterprise, and Habitat, which are used to leverage economic development and housing.

Rural Housing

The President's budget abandon's rural housing – abrogating the federal role in preserving the existing affordable housing stock of over 500,000 RHS Section 515 rural rental housing units. A November, 2004 RHS-commissioned study concluded that 92% of this 515 housing stock was worthy of being preserved, at a cost of $210 million in the first year, and $2.6 billion over the long run. Yet, instead of addressing this need, the President's budget is the first since 1963 that failed to ask for a single dollar for building or rehabilitating Section 515 rural units. The budget also cuts funding for rural rental assistance, and shifts some of that money to vouchers, for the purpose of enabling landlords to leave the 515 program and raise the rents on low-income rural families. Finally, the HUD budget eliminates funding for the Rural Housing and Economic Development program, funded at $25 million in recent years.

Homeownership

While the Bush Administration professes support for homeownership, its budget continues to advocate for a weakening of support for homeownership opportunities for low- and middle-income families. The Administration's insistence on imposing arbitrary portfolio limits on the nation's larger providers of mortgage credit, Fannie Mae and Freddie Mac, undercuts the goal of enhancing homeownership (in contrast to the GSE bill drafted by the Financial Services Committee and passed by the House, which fully provides the necessary changes to protect the safety and soundness of the GSEs, without negatively affecting homeownership).

The FY07 budget includes a proposal for "risk-based pricing" for FHA single family loans, which could raise fees on poorer and less credit-worthy borrowers. The President's Rural Housing Service (RHS) budget would move rural mortgage borrowers away from lower cost, subsidized direct loans into guaranteed loans – which are much more expensive for borrowers, but lucrative for lenders. And the President's budget would cut funding for Fair Housing enforcement.

Hurricane Katrina Housing Needs

The Bush Administration's response to the housing needs of hundreds of thousands of renters and homeowners displaced by Hurricane Katrina has been haphazard and totally inadequate. Nearly six months after Katrina hit, FEMA still has not issued guidelines for continued eligibility for rent assistance (in defiance of a Congressional directive). FEMA's efforts to provide temporary trailers to displaced families has been marked by repeated delays and problems in siting the trailers. And, FEMA precipitated an unnecessary crisis with its erratic effort to kick families out of motels and hotels on short notice.

Finally, we note the complete absence of any proposed response in the Administration budget to the ongoing housing crisis in areas affected by Hurricane Katrina. The continued non-involvement of HUD in this situation is especially noteworthy.

Sincerely,

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